

US SECURITIES & EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-KSB

(X) Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal period ended December 31, 2004.

( ) Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from                      to                      .

Commission File Number 0-24185

CENTRAL AMERICAN EQUITIES CORP.

Florida  
(State of incorporation)

65-0636168  
(IRS Employer ID Number)

Hotel Alta, Santa Ana, Costa Rica  
(Mailing: Hotel Alta, Interlink 964 POB 02-5635 Miami, FL 33102)  
(Address of Principal Executive Offices)

+011 (506) 282-4160  
(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act:                      None

Securities registered under Section 12(g) of the Exchange Act:  
Common Stock, \$.001 Par Value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding twelve (12) months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days. YES ( X ) NO ( ).

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and if no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10KSB or any amendment to this Form 10-KSB. [ ]

\$1,196,630  
(Issuer's revenues for its most recent fiscal year).

19,864,268 Shares Common Stock, \$.001 par value

(Number of shares outstanding of each of the Registrant's classes of common stock, as of December 31, 2004)

Transitional Small Business disclosure format (check one)  
YES [ X ] NO [ ]

DOCUMENTS INCORPORATED BY REFERENCE

Annual Report on Form 10-KSB of Registrant for the year ended December 31, 2000  
Annual Report on Form 10-KSB of Registrant for the year ended December 31, 2001

Annual Report on Form 10-KSB of Registrant for the year ended December 31, 2002  
Annual Report on Form 10-KSB of Registrant for the year ended December 31, 2003  
Report on Form 8K of July 2004

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## **ITEM 1. DESCRIPTION OF THE BUSINESS**

Central American Equities Corp. (the "Company" or "CAE") is a US hospitality company, based in Santa Ana, Costa Rica and incorporated in the State of Florida on January 23, 1996. The Company specializes in providing high-quality food and lodging in Costa Rica. The Company is in the business of owning and operating hotels and restaurants and real property in Costa Rica.

As of December 31, 2004, CAE owned Hotel Alta in Santa Ana (a suburb of the capital city of San Jose) and Sunset Reef Marine Hotel (on the Pacific Ocean in Mal Pais near the protected Cabo Blanco Reserve). CAE also owns and operates Alta Travel Planners (a full-service reservation, travel planning and in-bound tour operation based in Costa Rica).

All Company owned facilities were open and operating by the beginning of 1998. On December 31, 2004, the Company had approximately 65 full-time, part-time and contract employees.

### **Formation of the Company**

Central American Equities was formed by the acquisition of several California limited partnerships. In December 1996, CAE combined the assets of four limited partnerships (Cal Tico, L.P. ("Cal Tico"), Ecolodge Partners L.P. ("Ecolodge"), MarineLodge Partners, L.P. ("MarineLodge") and, L.A. Cal L.P. in a form of entity restructuring referred to as a "roll up." Under the terms of the roll-up, each partners' capital account was exchanged for common stock in Central American Equities (a Florida corporation incorporated on January 23, 1996); one share of common stock for each dollar of capital. In exchange for the ownership of the four partnerships, CAE issued 10,881,277 shares of common stock on December 10, 1996. At this point the partnerships dissolved. (For a complete discussion of the creation of CAE and the original limited partnerships, please refer to the 1998 and 1999 10-KSBs).

## **ITEM 2. DESCRIPTION OF THE PROPERTIES**

As of December 31, 2004, CAE consisted of two properties in Costa Rica: Hotel Alta (including Restaurante La Luz) and Sunset Reef Marine Hotel. During 2004, the Company sold Tropicana Restaurant at Playa Carmen (see below). Hotel Alta's land and buildings are owned by Hotelera Cal Tico, S.A., a Costa Rican corporation. Sunset Reef's land and buildings are owned by Sociedad Protectora de la Fauna y Flora de Mal Pais, S.A. a Costa Rican company. As of December 31, 2004, CAE owned 100% of the stock of the following Costa Rican Corporations: Hotelera Caltico, S.A. and Sociedad Protectora de la Fauna y Flora de Mal Pais, S.A.

### **Hotel Alta**

Hotel Alta is a 23-unit, luxury hotel located on approximately one acre of land in Alto de las Palomas, Santa Ana, 8 miles from downtown San Jose. Nearby Santa Ana and Escazu are considered among the most affluent districts of Costa Rica and continue to experience significant business and residential growth. La Luz, a 60-seat fine dining restaurant located within the hotel is owned and operated by CAE. The restaurant receives guests from nearby hotels and upscale locals who seek gourmet meals. Additional facilities are provided for banquets and corporate events for up to 120 guests.

### **Sunset Reef Marine Hotel**

Sunset Reef Marine Hotel is located in the small Pacific beachfront town of Mal Pais on the southern tip of the Nicoya Peninsula. Sunset Reef lies near the northern border of the renowned Absolute Natural Reserve of Cabo Blanco --- described by one guidebook as the "jewel of nature at the very tip of the Nicoya Peninsula."

Sunset Reef contains about 3 acres of beachfront land with 1500 feet of ocean frontage. The hotel is surrounded by miles of unspoiled shoreline, spectacular beaches, and lush tropical forests. Currently on site there is a fully operating 14-room hotel complete with pool, restaurant, and bar.

### **Tropicana Restaurant at Playa Carmen**

Tropicana, a 100-seat open-air restaurant with bar is located approximately three miles away from Sunset Reef Marine Hotel near the broad, beach at Playa Carmen. The rectangular parcel has 168 feet of beach frontage and an area of 3 acres. In 2003 the Company explored using the property as collateral to help finance debt and also proposed that part of the land be used in exchange for past debt owed to Costa Rican tax authorities.

As reported on Form 8K in July 2004, CAE sold this property to a private buyer in June 2004. Total consideration for the sale was \$635,000 dollars including previously received earnest money deposits. The price was based primarily on the value of the land. CAE used proceeds from the sale to reduce corporate debt including debt related to taxes due (see legal proceedings below),

## **ITEM 3. LEGAL PROCEEDINGS**

Occasionally in the past there have been actions against Central American Equities' subsidiaries in the Costa Rican Labor Court that had been brought by former employees who had been dismissed by the Company due to poor performance or insubordination. These employees dispute the reason for their dismissal and, as such, claim they are entitled to additional monetary compensation. The Company considers these actions to be routine litigation that is incidental to the business (as defined under Reg. Section 228.103). It is anticipated that any contingent liability stemming from these claims would be immaterial to the Company. In 2004 there were no such claims brought against the Company.

### **Potential Legal Proceeding and Liability**

On November 2002, Hotel Alta owed Tributacion (the Costa Rican taxing authority) approximately \$240,000 in unpaid sales taxes. These taxes have been listed on past balance sheets as an accrued expense and had been fully reported to the government of Costa Rica. The Costa Rica government offered to all companies in Costa Rica amnesty from interest and penalties for back taxes paid by April 30, 2003. Prior to April 30, 2003, CAE, unable to pay these taxes in cash, proposed that the debt be resolved with the exchange of property worth an equivalent value (part of the parcel in Playa Carmen where Restaurante Tropicana is located). It is the Company's contention that Tributacion accepted this offer on or before April 30, 2003 and began a process of appraising the property to determine how much of the tax liability was to be cancelled.

However, in August 2003, Tributacion notified the Company that it would not accept the property in lieu of payment (in whole or in part) and demanded that the Company immediately pay the past due taxes with interest and penalties.

Between August 2003 and August 2004 the Company attempted to negotiate with Tributacion concerning the amount of taxes owed and the applicability and legality of interest and penalties related to those taxes. These negotiations were unsuccessful. As such, on September 13, 2004 the Company brought suit against Tributacion in the Costa Rican constitutional court for not accepting the offer of property in exchange for the outstanding tax liability. The refusal of the offer denied the opportunity for the Company to successfully meet the tax amnesty deadline.

In December 2004, the Company was notified that the constitutional court had declined to accept the case, directing the Company to first present the case in the lower civil courts. In February 2005, the Company initiated the process of filing this case in Costa Rica's civil courts. Believing it has been denied due process and equal treatment under Costa Rican law, management plans to pursue the case vigorously.

It is difficult to evaluate the likelihood of an unfavorable outcome in this case but we estimate it to be at or below 50%. If an unfavorable outcome results, the Company may be liable for interest and penalties of more than \$175,000. The principal tax liability for past payments due as of December 31, 2004 was approximately \$110,000 (not including potential interest and penalties) and has been accounted for in the financial statements of this filing. Company payments from January through April 2005 reduced the amount of principal owed to about \$70,000.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Company submitted several matters to a vote of its security holders during its fiscal year ended December 31, 2004. On May 15, 2004 the Company held its annual meeting at Hotel Alta in Santa Ana, Costa Rica. At the meeting a quorum was certified with 14,751,171 shares present or 74.5% of the 19,789,268 shares outstanding at the time. During the meeting:

1. Richard Wm. Talley, Michael Caggiano, and Jim Voloshin were elected to the board of directors with a 96% approval of those shareholders voting.
2. Clyde Bailey was approved as the auditor for the Corporation with a 99% approval of those shareholders voting.
3. The amount of Common Stock outstanding was increased from 20,000,000 shares to 25,000,000 shares with a 93% approval of those shareholders voting.
4. The outstanding board director loans were assigned a 5% interest rate with a 93% approval of those shareholders voting.
5. The board directors were each granted 25,000 shares of common stock as compensation with a 93% approval of those shareholders voting (prior to this vote, board members did not receive compensation for board services except for reimbursement for expenses).

The Company submitted no other matters to a vote of its security holders during the 12-month period ended December 31, 2004.

## **ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

### **Description of Securities**

As of December 31, 2004, the Company's authorized capital stock consisted of 25,000,000 shares of common stock, par value \$.001 per share, and 1,000,000 shares of convertible preferred stock, par value \$.001 per share. As of December 31, 2004, 19,864,268 shares of common stock were issued and outstanding; an increase of 125,000 shares during 2004. Per the shareholder meeting of May 2004, each of the three board members were granted 25,000 shares of common stock. During 2004, the Company also granted 50,000 shares of common stock to an employee of the Company. On December 31, 2004, 1,000,000 shares of convertible preferred stock were issued and outstanding.

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the stockholders. The common stock does not have cumulative voting rights, which means that the holders of a majority of the outstanding shares of common stock voting for the election of directors can elect all members of the board of directors. A majority vote is also sufficient for other actions that require the vote or concurrence of the stockholders (except in cases in which more than a simple majority is required by law). Holders of common stock are entitled to receive dividends, when, as, and if declared by the board of directors, in its discretion, from funds legally available. Subject to the dividend rights of the holders of preferred stock, dividends for holders of shares of common stock are declared by the board of directors out of funds legally available. Upon liquidation, dissolution or winding up of the Company, after payment to creditors, the holders of common stock are entitled to share ratably in the assets of the Company, if any. The Bylaws of the Company require that only a majority of the issued and outstanding shares of common stock of the Company need be represented to constitute a quorum and to transact business at a stockholders' meeting. The common stock has no preemptive rights or subscription, redemption or conversion privileges. All of the outstanding shares of common stock are fully paid and non-assessable.

In mid-August 2000, Central American Equities qualified under the new rules of the National Association of Securities Dealers (NASD) and listed its stock on the Over the Counter Bulletin Board ("OTCBB") under the symbol "CENE". During all of 2004 the stock was listed on the Electronic Pink Sheets. As of March 2005, the Company had again been listed on the OTCBB. Between January 2004 and December 2004 the stock had a range of approximately \$0.02 to \$0.14 per share. These quotations may reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

The number of shareholders of record of the Company's common stock is approximately 226 with approximately 419 stock certificates outstanding. The Company has not paid nor declared any dividends upon its shares of common stock since its inception and, does not contemplate or anticipate paying any dividends upon its shares of common stock in the near future. The transfer agent for the Company's common stock is Olde Monmouth Stock Transfer Company, 200 Memorial Parkway, Atlantic Highlands, NJ 07716.

The Company's board of directors has total discretion as to the issuance and the determination of the rights and privileges of any shares of preferred stock issued by the Company. Such rights and privileges may be detrimental to the rights and privileges of the holders of common stock.

The Company currently has 1 million shares of Class “A” Convertible Preferred stock issued and outstanding. The Class “A” Convertible Preferred Stock has the following provisions: a) the option to transfer the shares into common stock on a one-for-one basis, b) the same voting rights as common stock, and c) the same liquidation preferences as common stock.

#### **Post-December 31, 2004**

In early April 2005, Medical Ventures Group, the holder of 1,000,000 shares of Class “A” Convertible Preferred Stock elected to convert those shares to Common Stock. At the time of conversion, board director P. James Voloshin held controlling interest in Medical Ventures Group. Subsequent to the conversion, Mr. Voloshin sold the shares of Common Stock to Richard Wm. Talley, a board director of the Company. In March 2005, the board awarded Michael Caggiano, the CEO of the Company 500,000 options to purchase common stock at \$0.04 per share. Mr. Caggiano exercised those options. As such, as of May 6, 2005 there were 21,364,268 Shares of Common Stock at \$.001 par value and no (0) shares of Class “A” Convertible Preferred Stock issued and outstanding.

### **ITEM 6. MANAGEMENT DISCUSSION AND ANALYSIS**

The following is management's discussion and analysis of significant factors that have affected the Company's financial position and operations during the fiscal year ended December 31, 2004.

#### **Overview**

The Company improved significantly in 2004. Hotel Alta did particularly well. Annual occupancy for 2004 at Hotel Alta increased by 33% from 43% occupancy in 2003 to 58% in 2004. Eight of the year's twelve months recorded monthly best occupancies (with March having the best monthly occupancy ever at 85 percent.)

Occupancy at Sunset Reef also increased, but less rapidly. In 2004 occupancy at Sunset Reef grew by 18% from 21% to 25% even though the hotel was closed 25% of the year. The Company closed Sunset Reef for three months of the low season to reduce costs, repair the hotel and make important changes in personnel. During the 9 months the hotel was open, occupancy was 34%.

Several factors contributed to the jump in occupancy. Importantly, tourism to Costa Rica increased by about 15% (preliminary statistics for ICT the Costa Rican Tourism Agency), the largest annual increase since 2001 (when travel to Costa Rica slowed or declined annually primarily due to the terrorist events of September 2001).

Several management programs over the past two years have helped the hotel capture more than its proportional share of the increased tourism. Hotel Alta's redesigned webpage ([www.thealtahotel.com](http://www.thealtahotel.com)) and web-marketing campaigns (including search-engine positioning and strategic placement of click-through advertisements) have resulted in significant increases in on-line reservations. Hotel Alta's website sales reached 13% of total room nights in 2004.

Hotel Alta's listing on Hotels.com and Expedia.com have increased the Hotel's exposure world-wide. Management has been better able to control inventory by running single-day specials during low occupancy periods. Hotel Alta was listed on Hotels.com by mid-year and sales from the web site exceeded \$41,000. Hotel Alta completed its listing on Expedia.com in December 2004 and received about \$5,000 in sales on the site in late



December.

The decision to increase the Hotel Alta's attractiveness to the business traveler (with the installation of high-speed internet access in the hotel rooms and the hotel's business center) continue to increase business reservations in both the high season and especially the low season. Business reservations have grown to almost 30% of hotel occupancy. Business related events increased accordingly.

During 2004, we also emphasized building and maintaining good business relationships with local travel agencies that sold both Hotel Alta and Sunset Reef. In mid-2004 we hired a new sales executive to focus on these agencies. Partly as a consequence, this segment increased 24%.

In 2004, increasing interest in Costa Rica came from European visitors who are looking for eco-travel and a favorable exchange rate. Several European airlines have increased their flights from European capitals to Costa Rica. We have followed this trend and increased our marketing in European countries.

Physical improvements and a change of resident management at Sunset Reef have increased the attractiveness of the property. Coupled with a stepped-up program of site visits by wholesalers, bookings through wholesalers and tour operators have increased modestly.

### **Results of Operations --- Years Ending December 31, 2004 and 2003**

The following is management's discussion and analysis of significant differences in the Company's financial position and operations between the fiscal year ended December 31, 2004 (FYE 2004) and the fiscal year ended December 31, 2003 (FYE 2003).

#### Balance Sheet

Between December 31, 2003 and December 31, 2004 the Company's current assets (primarily cash and accounts receivable) increased by about \$76,000. Total assets had a net decrease of about \$716,000 to \$5,761,889 primarily as a result of depreciation of approximately \$171,000 and the sale of an asset. In June 2004 the Company sold Restaurant Tropicana, the Company beach property in Mal Pais, to a private buyer. Total consideration for the sale was \$635,000 including previously received earnest money deposits. The price was based primarily on the value of the land. CAE used proceeds from the sale to reduce corporate debt including debt related to taxes due.

Between FYE 2003 and FYE 2004, total liabilities decreased from \$1,130,276 to \$674,621, a decline of about \$456,000 or 40%. Long-term debt declined as the Company reduced the principal on its loan from BCT bank by about \$88,000 (note that part of the BCT debt is now classified as short-term debt). Debts to officers were reduced by about \$343,000 and accrued expenses declined by about \$54,000 (this includes a reduction of taxes owed to Tributacion, the Costa Rican tax authority).

#### Statement of Operations

Revenues at the two hotels are primarily dependent upon the occupancy rates and restaurant and per room charges (although other services are also sold). Between FYE 2003 and FYE 2004 total sales revenue increased from \$1,037,709 to \$1,196,630 (about 15.3%). Gross profit increased by 15.4% to \$822,105. Total operational expenses (cost of services and general and administrative costs) were \$1,175,727. This is an increase of about 10.6% from \$1,063,190 in 2003.

The Company had a profit of about \$21,000 before interest expenses, sale of asset, and depreciation. During FYE 2004, depreciation was approximately \$171,000. Of the approximately \$28,000 in interest expense during the period, the majority was interest and fees related to the \$500,000 loan with Banco BCT. The net loss on the sale of Tropicana was about \$60,000.

Net losses (including interest expenses and depreciation) have declined. Net loss for FYE 2004 was \$238,167. This is approximately \$50,000 less than the net loss for FYE 2003. Loss per share is less than \$0.01. Between December 31, 2003 and December 31, 2004 cumulative losses (retained deficit) grew from about \$5.1 million to about \$5.4 million.

#### Future Direction

During its annual meeting held on May 15, 2004 management discussed the advantages and disadvantages of continuing to operate its current business while remaining a publicly trading company. Foremost was the cost to the Company of remaining a publicly trading company, as it is expensive and time consuming. For this reason, the board has questioned the value of remaining a publicly trading Company and is reviewing whether it is in the best interests of the shareholders to operate the hotels as a public entity. As such, we are exploring the idea of selling the hotels and seeking out business opportunity candidates to merge into the Company. There is no assurance, however, that management will do this.

#### **Liquidity and Capital Resources**

To date, Company operations have resulted in losses, albeit declining. During 2004 capitalization was not sufficient to fund necessary expenses. The Company has limited, albeit improving, cash liquidity and capital resources. Although occupancy trends are clearly positive, the Company plans to hold sufficient cash from the sale of assets in reserve to protect against liquidity needs during 2005.

#### **Currency Devaluation**

Historically, changes in the rate of exchange between dollars and colones (the Costa Rican currency) have had an insignificant effect on liquidity because the rate of exchange is relatively predictable. The Central Bank eases devaluation pressure on the colon through a system called "mini-devaluation" whereby it decreases the colon's value daily by centimos, establishing a rate that is generally followed by most banks and exchange houses in the country. Over the past few years the colon has devalued against the dollar between approximately 10% to 15% annually.

Currency devaluations can have a positive effect on the Company's net operating revenues. Although the hotels are in Costa Rica, all hotel rates and restaurant charges are quoted in US dollars (the majority of hotel guests are from the US and other parts of North America) and, as such, hotel revenues are generally unaffected by devaluation of the colon relative to the US dollar. The majority of hotel expenses in Costa Rica (including most salaries) are in colones although during 2004 goods and services experienced significant inflation.

#### **ITEM 7. FINANCIAL STATEMENTS**

Audited financial statements for 2003 and 2004 follow. Clyde Bailey, P.C., audited the Company financial statements in 2003 and 2004.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors  
Central American Equities Corp. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Central American Equities Corp. and Subsidiaries as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central American Equities Corp. and Subsidiaries at December 31, 2004 and the results of their operations, and their cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company's uncertainty as to its sales growth and its ability to raise sufficient capital, raise substantial doubt about the entity's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Clyde Bailey P.C.

March 31, 2005  
San Antonio, Texas

Central American Equities Corp, and Subsidiaries  
Consolidated Balance Sheets  
As of December 31, 2004

ASSETS

Current Assets:

|                          |            |
|--------------------------|------------|
| Cash and Cash Equivalent | \$ 142,733 |
| Accounts Receivable      | 88,750     |
| Inventory                | 24,689     |
| Prepaid Expenses         | 6,213      |
| Total Current Assets     | 262,385    |

|  |           |
|--|-----------|
| Buildings and equipment, net of depreciation | 5,499,504 |
|--|-----------|

|              |             |
|--------------|-------------|
| Total Assets | \$5,761,914 |
|--------------|-------------|

LIABILITIES AND STOCKHOLDER EQUITY

Current Liabilities

|                                |         |
|--------------------------------|---------|
| Accounts Payable               | 99,094  |
| Note Payable – Current Portion | 88,000  |
| Accrued Expenses               | 213,679 |

|                           |         |
|---------------------------|---------|
| Total Current Liabilities | 400,748 |
|---------------------------|---------|

Long-Term Liabilities

|                               |         |
|-------------------------------|---------|
| Long-Term Debt                | 237,176 |
| Notes Payable Related Parties | 36,770  |

|                           |         |
|---------------------------|---------|
| Total Current Liabilities | 273,946 |
|---------------------------|---------|

|                   |         |
|-------------------|---------|
| Total Liabilities | 674,694 |
|-------------------|---------|

Stockholders' Equity

|   |             |
|---|-------------|
| Preferred Stock, par value \$.001 per share authorized<br>1,000,000 shares, 1,000,000 shares outstanding        | 1,000       |
| Common Stock, par value \$.001 per share,<br>authorized 25,000,000 shares; 19,864,268<br>issued and outstanding | 19,864      |
| Additional Paid-In Capital  | 10,380,016  |
| Accumulated other comprehensive income  | 55,764      |
| Accumulated Deficit   | (5,369,449) |

|                            |           |
|----------------------------|-----------|
| Total Stockholders' Equity | 5,087,195 |
|----------------------------|-----------|

|  |             |
|--|-------------|
| Total Liabilities and Stockholders' Equity | \$5,761,914 |
|--|-------------|

Central American Equities Corp. and Subsidiaries  
Consolidated Statement of Operations  
For the Years Ended December 31, 2004 and 2003

|                                     | 2004           | 2003           |
|-------------------------------------|----------------|----------------|
| Revenues                            | \$1,196,630    | \$1,037,709    |
| Cost of Services                    | <u>374,525</u> | <u>325,224</u> |
| Gross Profit                        | 822,105        | 712,485        |
| Operations:                         |                |                |
| General and Administrative          | 801,202        | 737,466        |
| Depreciation                        | <u>171,720</u> | <u>183,292</u> |
|                                     | 972,922        | 921,258        |
| Operating Income (Loss)             | (150,817)      | (208,773)      |
| Other Income (Expense):             |                |                |
| Interest (expense)                  | (27,647)       | (80,061)       |
| Other Income, net sale of asset     | (59,703)       |                |
| Other Income net                    | (87,350)       | (80,061)       |
| Loss from Continuing Operations     | (238,167)      | (288,834)      |
| Provision for Income Taxes          | -              | -              |
| Net Income (Loss)                   | \$(238,167)    | \$(288,834)    |
| Net Income (Loss) per share         | \$(0.01)       | \$(0.02)       |
| Weighted Average Shares Outstanding | 19,764,268     | 17,539,262     |

Central American Equities Corp and Subsidiaries  
Consolidated Statement of Changes in Stockholder's Equity

|                               | Common<br>Shares | .001 par value<br>Stock<br>Amount<br>\$ | Pref.<br>Shares | Stock<br>Amount<br>\$ | Additional<br>Paid-In<br>Capital | Accum.<br>other<br>Compre-<br>hensive<br>Income | Accum.<br>Deficit | Total<br>Stockholder<br>Equity |
|-------------------------------|------------------|---|-----------------|-----------------------|----------------------------------|---|-------------------|--------------------------------|
| <b>12-31-00</b>               |                  |   |                 |                       |                                  |   |                   |                                |
| Balance                       | 14,739,268       | 14,739                                  | -               | -                     | 10,149,816                       | 41,066  | (3,737,961)       | 6,467,660                      |
| Comprehensive<br>(Loss):      |                  |   |                 |                       |                                  | 14,863  |                   | 14,863                         |
| Net Loss                      | -                | -                                       |                 |                       | -                                |   | (712,490)         | (712,490)                      |
| <b>12-31-01</b>               |                  |   |                 |                       |                                  |   |                   |                                |
| Balance                       | 14,739,268       | 14,739                                  |                 |                       | 10,149,816                       | 55,929  | (4,450,451)       | 5,770,033                      |
| Stock Issued<br>for Services  | 700,000          | 700                                     | -               | -                     | 13,300                           |   |                   | 14,000                         |
| Comprehensive (Loss)          |                  |   |                 |                       |                                  | 20,937  |                   | 20,937                         |
| Net Loss                      |                  |   |                 |                       |                                  |   | (391,997)         | (391,997)                      |
| <b>12-31-02</b>               |                  |   |                 |                       |                                  |   |                   |                                |
| Balance                       | 15,439,268       | 15,439                                  |                 |                       | 10,163,116                       | 76,866  | (4,842,448)       | 5,412,973                      |
| Stock Issued<br>for Services  | 700,000          | 700                                     |                 |                       | 27,300                           |   |                   | 28,000                         |
| Stock Issued<br>for Cash      | 3,600,000        | 3,360                                   | 1,000,000       | 1000                  | 186,600                          |   |                   | 191,200                        |
| Comprehensive<br>(Loss)       |                  |   |                 |                       |                                  | 4,320   |                   | 4,320                          |
| Net Loss                      |                  |   |                 |                       |                                  |   | (288,334)         | (288,334)                      |
| <b>12-31-03</b>               |                  |   |                 |                       |                                  |   |                   |                                |
| Balance                       | 19,739,268       | 19,739                                  | 1,000,000       | 1000                  | 10,377,016                       | 81,186  | (5,131,282)       | 5,347,659                      |
| Stock Issued<br>for Services  | 125,000          | 125                                     |                 |                       | 3,000                            |   |                   | 3,125                          |
| Comprehensive<br>Income other |                  |   |                 |                       |                                  | (25,422)  |                   | (25,422)                       |
| Net Loss                      |                  |   |                 |                       |                                  |   | (238,167)         | (238,167)                      |
| <b>12-31-04</b>               |                  |   |                 |                       |                                  |   |                   |                                |
| Balance                       | 19,864,268       | 19,864                                  | 1,000,000       | 1000                  | 10,380,016                       | 55,764  | (5,369,449)       | 5,087,195                      |

Central American Equities and Subsidiaries  
Consolidated Statement of Cash Flows  
For the Years Ended December 31, 2004 and 2003

|   | <u>2004</u> | <u>2003</u>  |
|---|-------------|--------------|
| Cash Flows from Operating Activities:   |             |              |
| Net (Loss)  | \$(238,167) | \$ (288,834) |
| Adjustments to reconcile net loss to net cash provided by operating activities: |             |              |
| Depreciation expense  | 171,722     | 183,292      |
| Debt Forgiveness  | -           | -            |
| Stock Issued for Services   | 3,125       | 28,000       |
| Unrealized Gain on Foreign Exchange   | (25,422)    | 4,320        |
| Loss on sale of facilities  | 38,356      | -            |
| Change in assets and liabilities:   |             |              |
| Decrease (increase) in:   |             |              |
| Accounts Receivable   | (23,305)    | (6,800)      |
| Inventory   | 6,789       | (13,564)     |
| Prepaid Expense   | (2,663)     | 3,987        |
| Increase (Decrease) in:   |             |              |
| Accounts Payable  | 29,376      | (174,787)    |
| Accrued Expenses  | (54,326)    | 3,824        |
| Net Cash Used in Operating Activities   | (94,515)    | (260,562)    |
| Cash Flows from Investing Activities:   |             |              |
| Capital Expenditures  | (53,000)    | (9,499)      |
| Security Deposit  | -           | -            |
| Payments received on notes collections  | -           | -            |
| Payments received on sale of facilities   | 635,000     | 0            |
| Net Cash Provided from Investing Activities                                     | 582,000     | (9,499)      |
| Cash Flows from Financing Activities:   |             |              |
| Proceeds (Payments) from loans from officers                                    | (342,708)   | 208,278      |
| Common Stock  | -           | 191,200      |
| Payment of loans  | (87,999)    | (68,502)     |
| Net Cash Used In Financing Activities   | (430,707)   | 330,976      |
| Net Increase (Decrease) in Cash   | 56,778      | 60,915       |
| Cash Beginning of year  | 85,955      | 25,040       |
| Cash End of year  | \$142,733   | \$85,955     |

Central American Equities and Subsidiaries  
Consolidated Statement of Cash Flows  
For the Years Ended December 31, 2004 and 2003

|                            | <u>2004</u> | <u>2003</u> |
|----------------------------|-------------|-------------|
| Supplementary Disclosure:  |             |             |
| Cash Paid for Interest     | \$27,647    | \$82,099    |
| Cash Paid for Taxes        |             |             |
| Non-cash transactions:     |             |             |
| Shares Issued for Services | \$ 2,500    | \$28,000    |



CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

**Note 1 -Summary of Accounting Policies**

**Nature of Business**

Central American Equities Corp. and Subsidiaries (the "Company") was incorporated under the laws of the State of Florida on January 23, 1996. The Company provides an integrated eco-vacation experience in Costa Rica, and is in the business of owning and operating hotels and real property in Costa Rica.

In December of 1996, the Company entered into an agreement for the exchange of common stock ("Exchange Agreement") with Cal Tico, L.P., Ecolodge Partners, L.P. and Marine Lodge Partners, L.P. (Partnership). Pursuant to the exchange agreement, the company issued 7,756,885 and 3,099,392 shares of common stock to limited partners and the general partners, respectively, of the partnerships. In exchange for the shares, the partnership transferred all of their interests (i.e. 100% of the outstanding common stock) in the following Costa Rican corporations: Hotelaria Cal Tico, S.A.; Bandirma, S.A.; Sociedad Protectora De La Fuana y Flora Marintima De Mal Pais, S.F.; Ecoproyecto San Luis, S.A. and Confluencia, S.A.

Cal Tico, L.P. was a California limited partnership that was formed in July 1992 to raise \$2 million to purchase the land and construct Hotel Alta. Cal Tico, L.P. owns 100% of the stock in Hotelaria Cal Tico, S.A., a Costa Rican corporation. Hotelaria Cal Tico, S.A. owns the land and buildings at Hotel Alta.

Ecolodge Partners, L.P. was formed in July 1993 to raise a total of \$1.3 million in a private placement offering to purchase the land and construct the Ecolodge San Luis and Biological Station. Ecolodge Partners was a California limited partnership that owned all of the stock in Ecoproyecto San Luis, S.A. and Confluencia San Luis, S.A., the two Costa Rican companies that own the Ecolodge land and buildings.

Marine Lodge Partners L.P. was formed in March 1995 to raise \$1 million for the purchase and renovation of the Sunset Reef. MarineLodge Partners was a California limited partnership. Marine Lodge Partners owned 100% of the stock in Bandirma, S.A. Bandirma owns: a) 90% of the Sociedad Protectora De La Fauna y Flora Maritima de Mal Pais S.A., a Costa Rican corporation which owns the land and buildings at Sunset Reef, and b) 100% of Muxia, S.A. which owns 100% of the land and buildings at Playa Carmen.

**Basis of Consolidation**

The consolidated financial statements include the consolidated accounts of Central American Equities Corp. and its subsidiaries. Hotelaria Cal Tico, S.A., Bandirma, S.A., Sociedad Protectora De La Fuana y Flora Marintima De Mal Pais, S.F., Ecoproyecto San Luis, S.A. and Confluencia, S.A. are held 100% by the Company. All intercompany transactions and accounts have been eliminated in consolidation.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows all certificates of deposits with maturities of 90 days or less, were deemed to be cash equivalents.

**Property and Equipment**

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed provided using the straight-line method over the estimated useful lives of five for equipment, seven years for furniture and fixtures and forty years for buildings and improvements.

Repairs and maintenance costs are expensed as incurred while additions and betterments are capitalized. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gain or losses are reflected in earnings.

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

**Note 1 -Summary of Accounting Policies (continued)**

**Estimates**

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Adoption of Statement of Accounting Standard No. 123**

In 1997, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 encourages, but does not require companies to record at fair value compensation cost for stock-based compensation plans. The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The difference between the fair value method of SFAS-123 and APB 25 is immaterial.

**Adoption of Statement of Accounting Standard No. 128**

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). SFAS 128 changes the standards for computing and presenting earnings per share (EPS) and supersedes Accounting Principles Board Opinion No. 15, "Earnings per Share." SFAS 128 replaces the presentation of primary EPS with a presentation of basic EPS. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. This Statement requires restatement of all prior period EPS data presented.

As it relates to the Company, the principal differences between the provisions of SFAS 128 and previous authoritative pronouncements are the exclusion of common stock equivalents in the determination of Basic Earnings Per Share and the market price at which common stock equivalents are calculated in the determination of Diluted Earnings Per Share.

Basic earnings per common share is computed using the weighted average number of shares of common stock outstanding for the period. Diluted earnings per common share is computed using the weighted average number of shares of common stock and dilutive common equivalent shares related to stock options and warrants outstanding during the period.

The adoption of SFAS 128 had no effect on previously reported loss per share amounts for the year ended December 31, 1997. For the years ended December 31, 1999 and 1998, primary loss per share was the same as basic loss per share and fully diluted loss per share was the same as diluted loss per share. A net loss was reported in 1998 and 1997, and accordingly, in those years the denominator was equal to the weighted average outstanding shares with no consideration for outstanding options and warrants to purchase shares of the Company's common stock, because to do so would have been anti-dilutive. Stock options for the purchase of 357,500 shares at December 31, 1998 were not included in loss per share calculations, because to do so would have been anti-dilutive.

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

**Note 1 -Summary of Accounting Policies (continued)**

**Revenue Recognition**

The Company records revenue at the point of service and maintains its corporate records for both financial statement and tax return purposes on the accrual method of accounting.

**Foreign Exchange**

Assets and liabilities of the Company, which are denominated in foreign currencies, are translated at exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates throughout the year. The unrealized translation gains and losses are accumulated in a separate component of stockholders' equity translation exchange gains and losses are reflected in net earnings.

**Fair Value of Financial Instruments**

The carrying amount of the Company's financial instruments, which principally include cash, note receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The fair value of the Company's debt instruments is based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At December 31, 2002 and 2001, respectively, the carrying value of all financial instruments was not materially different from fair value.

**Income Taxes**

The Company has net operating loss carryovers of approximately \$5.4 million as of December 31, 2004, expiring in the years 2012 through 2023. However, based upon present Internal Revenue regulations governing the utilization of net operating loss carryovers where the corporation has issued substantial additional stock, most of this loss carryover may not be available to the Company.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, effective July 1993. SFAS No.109 requires the establishment of a deferred tax asset for all deductible temporary differences and operating loss carryforwards. Because of the uncertainties discussed in Note 2, however, any deferred tax asset established for utilization of the Company's tax loss carryforwards would correspondingly require a valuation allowance of the same amount pursuant to SFAS No. 109. Accordingly, no deferred tax asset is reflected in these financial statements.

**Recent Accounting Pronouncements**

In December 2004, the FASB issued FASB Staff Position No. 109-1 ("FSP FAS No. 109-1"), "Application of FASB Statement No.109, 'Accounting for Income Taxes,' to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." The American Jobs Creation Act of 2004 introduces a special tax deduction of up to 9.0 percent when fully phased in, of the lesser of "qualified production activities income" or taxable income. FSP FAS 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with SFAS No. 109. Although FSP FAS No. 109-1 was effective upon issuance, we are still evaluating the impact FSP FAS No. 109-1 will have on our financial statements.

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

**Note 1 -Summary of Accounting Policies (continued)**

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", an amendment of Accounting Research Bulletin No. 43, Chapter 4. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not believe adoption of SFAS No. 151 will have a material effect on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. APB Opinion No. 29, "Accounting for Non-monetary Transactions," provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. Under APB Opinion No. 29, an exchange of a productive asset for a similar productive asset was based on the recorded amount of the asset relinquished. SFAS No. 153 eliminates this exception and replaces it with an exception of exchanges of non-monetary assets that do not have commercial substance. SFAS No. 153 is effective for the Company as of January 1, 2005. The Company will apply the requirements of SFAS No. 153 when such an exchange occurs.

**Note 2 – Federal Income Tax**

The Company has adopted Financial Accounting Standards No. 109, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns.

Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant. At December 31, 2004, the Company has available for federal income tax purposes a net operating loss carry forward of approximately \$5,650,000, expiring in the year 2022, that may be used to offset future taxable income.

The components of the provision for income tax (expense) benefits are as follows:

|                     | <u>Year Ended December 31,</u> |               |
|---------------------|--------------------------------|---------------|
|                     | <u>2004</u>                    | <u>2003</u>   |
| Deferred:           |                                |               |
| Federal             | \$ 77,332                      | \$ 93,784     |
| State               | 10,717                         | 12,948        |
| Valuation Allowance | ( 88,049)                      | (106,782)     |
|                     | <u>\$ -0-</u>                  | <u>\$ -0-</u> |

**CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 2 -Federal Income Tax (continued)**

Such income tax (expense) benefits are included in the accompanying consolidated financial statements as follows:

|   | <u>Year Ended December 31,</u> |             |
|---|--------------------------------|-------------|
|   | <u>2004</u>                    | <u>2003</u> |
| Income from operations                            | \$ 88,049                      | \$ 106,782  |
| Non-Deductible Expenses<br>and Non-Taxable Income | -0-                            | -0-         |
| Valuation Allowance                               | ( 88,049)                      | ( 106,782)  |
|   | -----                          | -----       |
|   | \$ -0-                         | \$ -0-      |

The above provision has been calculated based on Federal and State statutory rates in the adjusted rates of 34% for Federal and 4.5% for State tax rates.

The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits will not be realized.

At December 31, 2004 and 2003 deferred taxes consisted of the following:

|                                  | 2004         | 2003         |
|----------------------------------|--------------|--------------|
| Deferred tax assets,             |              |              |
| Net operating loss carry-forward | \$ 1,953,049 | \$ 1,865,000 |
| Less valuation allowance         | (1,953,049)  | (1,865,000)  |
|                                  | -----        | -----        |
| Net deferred taxes               | \$ -0-       | \$ -0-       |
|                                  | =====        | =====        |

The valuation allowance offsets the net deferred tax asset for which there is no assurance of recovery. The change in the valuation allowance for the years ended December 31, 2004 and 2003 totaled \$ 88,049 and \$98,204, respectively. The net operating loss carry- forward expires in year 2022. The valuation allowance will be evaluated at the end of each year, considering positive and negative evidence about whether the deferred tax asset will be realized.

At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required.

**CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 3 -Going Concern**

As shown in the accompanying financial statements, the Company incurred a net loss of approximately \$238,000 during the year ended December 31, 2004 that raise substantial doubt about the entity's ability to continue as a going concern. .

The Company has received additional financing through the sale of a non-performing asset, continues to control expenses, and evaluates the ongoing performance of the Company's assets. The ability of the Company to continue as a going concern is dependent on the success of application and techniques. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**Note 4 -Property and Equipment**

As of December 31, 2004 plant and equipment consisted of the following:

|                               |                     |
|-------------------------------|---------------------|
| Land                          | \$249,547           |
| Buildings                     | 5,995,553           |
| Machinery and equipment       | 125,535             |
| Furniture and fixtures        | 286,635             |
| Computer equipment            | <u>73,693</u>       |
|                               | 6,730,963           |
| Less accumulated depreciation | <u>1,231,434</u>    |
|                               | <u>\$ 5,499,529</u> |

**Note 5 - Common Stock**

Depreciation expense in the amount of \$171,722 and \$183,292 has been recorded for the years ended December 31, 2004 and 2003 respectively.

During the year ended 2004 and 2003 a total of 700,000 and 125,000 shares of common stock was issued to directors and employees, respectively. The stock was valued \$.025 per share in 2004 for a total of \$3,125 and \$.04 per share in 2003 for a total of \$28,000.

A total of 19,864,268 shares of common stock is outstanding as of December 31, 2004.

**Note 6 -Notes Payable**

The Company has \$325,176 outstanding against a \$500,000 line of credit with Banco BCT, which bears interest at the prime rate plus 3%. In February 2002, the Company restructured the loan. The new terms include a loan term of 70 months; an annual interest rate of prime plus 3.75%, and monthly principal payments that vary with the high and low occupancy periods of Hotel Alta. Monthly principal payments in year one will vary from \$3,000 to \$12,000. The funds advanced under this line of credit were utilized to supplement cash flow for operating expenses and construction costs. The note is collateralized by property of the Company.

CENTRAL AMERICAN EQUITIES CORP. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

**Note 7 -Notes Payable – Related Parties**

Notes payable as of December 31, 2004 are as follows:

|  |                  |
|--|------------------|
| Note payable to shareholder dated November 30, 2000 with interest at 5% with no set terms for prepayment | <u>\$ 36,770</u> |
|--|------------------|

|                       |           |
|-----------------------|-----------|
| Total Due to Officers | \$ 36,770 |
|-----------------------|-----------|

**Note 8 – Commitments and Contingencies**

The Company has a month-to-month lease for 1 acre of property. Minimum rentals in the year ending December 31, 2004 are \$18,000

Included as a liability on the balance sheet is an accrued expenses in the amount of about \$110,000 for non-payment of sales taxes for Hotel Alta. The amount listed in 2004 is an accurate reflection on the amount past due at that time not including penalties or interest.

Penalties and interest were not included as the government had an amnesty program that forgave penalties and interest on all past taxes paid by April 30, 2003. The Company planned to have the cash available to pay past taxes by selling a beach property called Tropicana before April 30. Instead, through negotiations with the government the Company offered part of the property to the government in lieu of payment. Before April 30 the government accepted the property and began an appraisal to see how much of the past taxes it would cover. In August 2003, the government reversed course on the offer to accept the property. They demanded full payment of the back taxes including penalties and interest. As of the report date, the Company has paid down the tax liability by about \$130,000, but is disputing the interest and penalties.

**Note 9 – Sale of Asset**

On June 15, 2004, the Company sold the property known a “the Tropicana” to unrelated parties for a total of \$635,000. The funds were used to reduce debt and pay the accrued expenses relating to tax owned. The sale resulted in a loss of \$59,703 as recorded in the statement of operations.

## ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

The Company's auditor is Clyde Bailey, P.C., C.P.A. Clyde Bailey was named the Company auditor on August 28, 2003. At no time have there been any disagreements with our auditor regarding any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. Both the 2004 and 2003 financial statements in this filing are audited by Clyde Bailey, P.C., C.P.A.

## ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, AND CONTROL PERSONS

### Identification of Directors and Executive Officers

The following table sets forth the names of all directors and executive officers of the Company during 2004. Mr. Talley and Mr. Rosenmiller, were elected to the board of directors on 01/20/97. In September 1998, Mr. Caggiano became the consulting CEO and President of CAE and a board member of CAE.

In April 2004, the board voted to "accept with regret" Fred Rosenmiller's resignation from the board of directors. At that time, Dr. P. James Voloshin was elected to serve the remainder of Mr. Rosenmiller's term. At a shareholder meeting of the Company held on May 15, 2004, Mr. Talley, Mr. Caggiano, and Dr. Voloshin were re-elected to the board of directors and will serve until the next meeting of the shareholders.

| Name                  | Position Held          | Dates             | Age |
|-----------------------|------------------------|-------------------|-----|
| Richard Wm. Talley    | Chairman/Director      | 1/1997 to current | 62  |
| Michael Caggiano      | President/CEO/Director | 9/1998 to current | 51  |
| W.F.O. Rosenmiller    | Secretary/Director     | 1/1997 to 4 /2004 | 72  |
| Dr. P. James Voloshin | Secretary/Director     | 4/2004 to current | 63  |

### Business Experience

RICHARD Wm. TALLEY, Chairman and Director of Central American Equities Corp (age 62, time spent on company business: 10 percent). Mr. Talley was (with Mr. King) a representative of Cal TKCo, S.A., the general partner in several of the California Limited Partnerships that raised the seed money for the Costa Rican corporations that built the hotels (see Item 1, Description of Business). As of August 1999, Mr. Talley has been the CEO of Talley and Co., an investment banking and general securities company located in Irvine, California.

Mr. Talley began his finance career with Smith Barney in New York. He opened and managed the Shearson office in Santa Barbara until its sale to American Express in 1983, at which time he founded Talley, McNeil, and Tormey, a regionally focused investment bank and brokerage firm. The firm was merged into a larger Southern California investment banking and brokerage firm in 1989. In 1993, Mr. Talley and Paul D. King founded Talley, King and Co., Inc. ("Talley King") with offices in Irvine, California. Talley, King & Co., Inc. was an investment bank that focused on private placement financing.



Mr. Talley has been actively involved in Costa Rica for the last decade. Mr. Talley holds a bachelor of arts degree in European History from the University of California, Santa Barbara and an MBA in Finance from Cornell University, Ithaca, New York.

MICHAEL N. CAGGIANO, Ph.D. President, Chief Executive Officer, and Director of Central American Equities (age: 51, time spent on company business: ninety percent). Dr. Caggiano is also a officer and owner of Talley & Co. During 2000, Dr. Caggiano was also a Director of Café Britt, a roaster and distributor of premium Costa Rican coffee.

Prior to joining CAE, as a private consultant, Dr. Caggiano specialized in furnishing advice to management regarding economic performance, corporate strategy, obtaining financing (business plans, prospectuses, SEC and NASD filings), mergers and acquisitions, and organizational change. His clients have included health care, real estate, hospitality, international exporting, electronics, and manufacturing companies. Dr. Caggiano has also provided public policy and litigation analysis for local governments and private entities.

Prior to establishing his own company, Dr. Caggiano was Executive Vice President in Charge of Consulting Operations at Robert Charles Lesser & Co. (RCLCo) a 50-person, 5-office, national consulting firm based in Los Angeles. While at RCLCo, he oversaw the management of more than 300 consulting engagements annually.

In 1990, Dr. Caggiano was elected to the first City Council of Malibu and later served as its Mayor Pro Tem. Before serving as an elected official, he was a Fellow and Policy Analyst with The RAND Corporation. While at RAND, he specialized in solving state and local government financial and criminal justice problems.

Dr. Caggiano holds a Ph.D. and M.Ph. in Public Policy Analysis from the RAND Graduate School of The RAND Corporation, an M.P.A. from the University of Southern California, and a B.A. in Government from Pomona College.

W.F.O. ROSENMILLER, Secretary and Director of Central American Equities Corp (age 72, time spent on Company business: one percent). Mr. Rosenmiller resigned from the board in April 2004. During the past six years, Mr. Rosenmiller has been self-employed as a real estate broker, land developer, entrepreneurial investor and venture capitalist in the United States. He has also been an individual and partnership investor in Costa Rica. He is also a former board member of Centracan, Inc., a US-based medical corporation that owns and operates medical diagnostic and treatment facilities in Costa Rica.

Mr. Rosenmiller is a graduate of Penn State University (BS) and Drexel University (MBA). Mr. Rosenmiller spent four years in the US Navy and was honorably discharged as a full lieutenant with expertise in open sea navigation as well as general nautical knowledge. Mr. Rosenmiller brings to the Company a wealth of management and development experience. As a director of the Snow Time Inc., a ski resort complex consisting of facilities in New York State and York, Pennsylvania with revenues in excess of \$30 million, Mr. Rosenmiller has had over thirty years experience in the hotel, restaurant, and bar business. He is a advisory board director of First Union Bank and has had extensive experience on both the audit and credit sides of partnership lending as well as project projections. Most recently he has been involved in all aspects of a 200-acre subdivision of high-end condominium and single-family homes in York, PA. This project has received national design awards.

P. JAMES VOLOSHIN, M.D., Secretary and Director of Central American Equities Corp (age 63, time spent on Company business: one percent). Dr. Voloshin, was selected to replace Mr. Rosenmiller on the board of directors in April 2004 and was elected to the board at the shareholder's meeting in May 2004. Dr. Voloshin has been a director of

MedPlus Inc., a public company since January 1996. Dr. Voloshin is a plastic surgeon and has been President of the Newport Surgery Institute, located in Newport Beach, California, since 1986. Dr. Voloshin co-founded Surgical Funding Group, Inc. in 1992 and was its President until the company was acquired by MedPlus Inc. in November 1995. Dr. Voloshin is or has been a member of ten medical societies including the American Society of Plastic Surgery.

Dr. Voloshin has been a shareholder of Central American Equities since 1997. The nomination committee nominated him to increase shareholder representation and because of his experience in other public companies especially in the area of audits and the sale of public shells. Dr. Voloshin holds a medical degree from the University of Alberta, Canada in 1966, and Board Certification in Plastic Surgery since 1972. He is a resident of Dana Point, California.

### **Family Relationships**

There are no family relationships between the directors or executive officers of the Company, either by blood or by marriage.

### **Involvement in Certain Legal Proceedings**

During the past five years, no present director, executive officer or person nominated to become a director or an executive officer of the Company was:

1. A general partner or executive officer of any business against which any bankruptcy petition was filed, either at the time of the bankruptcy or two years prior to that time;
2. Convicted in a criminal proceeding or named subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. Subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
4. Found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity futures trading Commission to have violated a commodities law, and the judgment has not been reversed, suspended or vacated.

## **ITEM 10. EXECUTIVE COMPENSATION**

The Company has no stock option or stock appreciation rights, long term or other incentive compensation plans, deferred compensation plans, stock bonus plans, pension plans, or any other type of compensation plan in place for its executive officers, or directors except as noted in the table and footnotes listed below.

The following table sets forth the total compensation of current officers and directors during the fiscal years ended December 31, 1997 through 2004. The footnotes are an integral part of the table. No officer or director of the Company earned more than \$100,000 from the Company during such fiscal years.

| Name                    | Title                  | Compensation |                  |
|-------------------------|------------------------|--------------|------------------|
| Richard Wm. Talley (1)  | Director               | 1997         | 0                |
|                         | Director               | 1998         | 0                |
|                         | Director               | 1999         | 0                |
|                         | Director               | 2000         | 0                |
|                         | Director               | 2001         | 0                |
|                         | Director               | 2002         | 0                |
|                         | Director               | 2003         | 0 (11)           |
|                         | Director               | 2004         | 0 (10)           |
| Paul King (1)           | Director               | 1997         | 0                |
|                         | Director               | 1998         | 0                |
|                         | Director               | 1999         | 0                |
|                         | Director               | 2000         | 0                |
|                         | Director               | 2001         | 0                |
|                         | Director               | 2002         | 0                |
| W.F.O. Rosenmiller      | Secretary/Director     | 1997         | 0                |
|                         | Secretary/Director     | 1998         | 0                |
|                         | Secretary/Director     | 1999         | 0                |
|                         | Secretary/Director     | 2000         | 0                |
|                         | Secretary/Director     | 2001         | 0                |
|                         | Secretary/Director     | 2002         | 0                |
|                         | Director               | 2003         | 0                |
|                         | Director               | 2004         | 0                |
| P. James Voloshin       | Director               | 2004         | 0 (10)           |
| Michael N. Caggiano (2) | NA                     | 1997         | NA               |
|                         | CEO/President/Director | 1998         | \$65,000         |
|                         | CEO/President/Director | 1999         | \$65,000 (3)     |
|                         | CEO/President/Director | 2000         | \$65,000 (4) (5) |
|                         | CEO/President/Director | 2001         | \$72,500 (6)     |
|                         | CEO/President/Director | 2002         | \$75,000 (7) (8) |
|                         | CEO/President/Director | 2003         | \$75,000 (9)     |
|                         | CEO/President/Director | 2004         | \$75,000 (10)    |

- (1) Does not include \$100,100 in management fees received by Talley, King & Company, Inc. in 1997. Messrs. Talley and King were owners of Talley, King & Company, Inc.
- (2) During the third quarter of 1998 the Company issued 19,200 shares of its Common Stock to Michael N. Caggiano, the Company's Consultant CEO/President. The shares were issued in lieu of payment for services rendered prior to him being appointed to his current position as CEO and President.
- (3) Mr. Caggiano's annual salary in 1999 was \$65,000. As of December 31, 1999, Mr. Caggiano was owed \$22,500 in past salary and \$34,668 in compensation due for services rendered prior to becoming the CEO. These amounts were included in accounts payable.
- (4) Mr. Caggiano's annual salary was increased to \$75,000 in April 2000. As of December 31, 2000, Mr. Caggiano was owed \$89,400 in past salary and \$34,668

- in compensation due for services rendered prior to becoming the CEO. These amounts were included in accounts payable.
- (5) On April 12, 2000 the board additionally compensated Mr. Caggiano with 100,000 shares of CAE Common stock (one-third, or 33,333 shares, equally from the holdings of directors Talley, King and Rosenmiller). Mr. Caggiano was also granted options to buy CAE shares of Common Stock as follows: 100,000 shares @ \$0.75; 100,000 shares @ \$1.25; and 100,000 shares @ \$1.75 (to expire on April 12, 2005).
  - (6) Mr. Caggiano's annual salary was \$75,000 in 2001. The amount of \$54,668 is the value of past salary owed that was collateralized by Sunset Reef (see Notes to Financial Statements in previous 10-KSBs). As of December 31, 2001, Mr. Caggiano was owed \$109,772 in past salary and \$34,668 in compensation due for services rendered prior to becoming the CEO. These amounts were included in accounts payable.
  - (7) Mr. Caggiano's annual salary was \$75,000 in 2002. However, as of December 31, 2002, Mr. Caggiano was owed \$162,464.72 in past salary. This amount was included in accounts payable.
  - (8) In the fourth quarter of 2002 the board additionally compensated Mr. Caggiano with 700,000 shares of CAE stock and granted options to Mr. Caggiano as follows: 100,000 shares @ \$0.10; 100,000 shares @ \$0.15; and 100,000 shares @ \$0.20 (all to expire in 5 years). In addition to salary, the board compensates Mr. Caggiano with housing, motor vehicle, and laundry and food in the hotels.
  - (9) Mr. Caggiano's annual salary was \$75,000 in 2003 and 2004. However, as of December 31, 2004, Mr. Caggiano was owed \$15,550 in past salary. This amount was included in loans from officers. In addition to salary, the board compensates Mr. Caggiano with housing, motor vehicle, and laundry and food in the hotels.
  - (10) In May 2004, the shareholders granted each board director 25,000 shares in compensation.
  - (11) During the fourth quarter of 2003, the Company raised cash by selling securities. The Company paid Richard Wm. Talley, a director of the Company, \$19,800 (10% of gross proceeds) in commission on the sale of the stock.

At the shareholder meeting on May 15, 2004, the Company granted current board directors (Talley, Voloshin, Caggiano) each 25,000 shares of common stock as compensation for board services. In August 2004, to cover expenses, the board approved a \$500 payment per board meeting for non-employee board members (Talley and Voloshin).

Also at the shareholders meeting of May 15, 2004, the outstanding board director loans were assigned a 5% interest rate with a 93% approval of those shareholders voting. Total interest payable amounted to approximately \$66,000 (approximately \$40,500 for Caggiano and approximately \$25,500 for Talley). This interest has not been paid.

## **ITEM 11. SECURITY OWNERSHIP OF MANAGEMENT & CERTAIN BENEFICIAL OWNERS**

### **Security Ownership of Certain Beneficial Owners**

The following table sets forth the shareholdings of those persons who owned more than five percent of the Company's total common stock as of December 31, 2004:

In addition to the Common stock noted in this table, P. James Voloshin owns one hundred percent of the one million shares of the Class "A" Convertible Preferred stock issued and outstanding. Dr. Voloshin became a member of the board of directors in April 2004.

| Name and Address  | Number of Shares<br>Beneficially Owned | Percent of Total | Class        |
|---|--|------------------|--------------|
| P. James Voloshin<br>360 San Miguel Dr.<br>Suite 406<br>Newport Beach, CA       | 1,648,515                              | 8.3%             | Common Stock |
| Michael Caggiano<br>Hotel Alta, Alto de las<br>Palomas, Santa Ana<br>Costa Rica | 1,556,202                              | 7.8%             | Common Stock |

### Security Ownership of Management

The following sets forth the shareholdings of the Company's directors and executive officers as of December 31, 2004:

| Name and Address   | Number of Shares<br>Beneficially Owned | Percent of Total | Class        |
|--------------------|--|------------------|--------------|
| Richard Wm. Talley | 744,431                                | 3.7%             | Common Stock |
| P. James Voloshin  | 1,648,515                              | 8.3%             | Common Stock |
| Michael Caggiano   | <u>1,556,202</u>                       | <u>7.8%</u>      | Common Stock |
| Totals             | 3,949,148                              | 19.9%            |              |

Notes: In addition, P. James Voloshin held 1,000,000 shares of Class "A" Convertible Preferred Stock under the name of Medical Ventures Group.

### Post-December 31, 2004

In early April 2005, Medical Ventures Group, the holder of 1,000,000 shares of Class "A" Convertible Preferred Stock elected to convert those shares to Common Stock. At the time of conversion, board director P. James Voloshin held controlling interest in Medical Ventures Group. Subsequent to the conversion, Mr. Voloshin sold the shares of Common Stock to Richard Wm. Talley, a board director of the Company. In March 2005, the board awarded Michael Caggiano, the CEO of the Company 500,000 options to purchase common stock at \$0.04 per share. Mr. Caggiano has exercised these options. As such, as

of May 6, 2005 there were 21,364,268 shares of Common Stock at \$.001 par value and no (0) shares of Class "A" Convertible Preferred Stock issued and outstanding.

## **ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

During the fourth quarter of 2003, the Company raised cash by selling securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws (see above). The proceeds of these sales, less any deductions for transactional fees including, but not limited to, commissions, accounting fees, legal fees, and printing costs was used for debt reduction (including reduction of a tax liability) and working capital. The Company paid a director of the Company (Talley) \$19,800 (10% of gross proceeds) in commission on the sale of the stock.

During December 2003, the Company exchanged 240,000 shares of Common Stock for \$12,000 of the \$40,000 debt owed to (at that time) board director Rosenmiller. The debt was exchanged for shares at a price of \$0.05 per share.

At the shareholders meeting of May 15, 2004, the outstanding board director loans were assigned a 5% interest rate with a 93% approval of those shareholders voting. Total interest payable amounted to approximately \$66,000 (approximately \$40,500 for Caggiano and approximately \$25,500 for Talley). This interest has not been paid.

### **Post-December 31, 2004**

In early April 2005, Medical Ventures Group, the holder of 1,000,000 shares of Class "A" Convertible Preferred stock elected to convert those shares to Common Stock. At the time of conversion, board director P. James Voloshin held controlling interest in Medical Ventures Group. Subsequent to the conversion, Mr. Voloshin sold the shares of Common Stock to Richard Wm. Talley, a board director of the Company. In March 2005, the board awarded Michael Caggiano, the CEO of the Company 500,000 options to purchase common stock at \$0.04 per share. Mr. Caggiano exercised those options. As such, as of May 6, 2005 there were 21,864,268 Shares of Common Stock at \$.001 par value and no (0) shares of Class "A" Convertible Preferred stock issued and outstanding.

## **ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K**

No exhibits are filed with this Form 10-KSB. Additional information may be found in the Annual Report on Form 10-KSB of the Registrant for the year ended December 31, 1998, 1999, 2000, 2001, 2002, and 2003. No reports were filed on Form 8-K during the last quarter of the period covered by this report.

A report on Form 8-K (disposition of an asset) was filed in July 2004 that reported the sale of Restaurant Tropicana our beach property located in Mal Pais, Costa Rica. CAE has sold the property and small structure (a small open-air restaurant, known as Tropicana) to a private buyer. Total consideration for the sale was \$635,000 dollars including previously received earnest money deposits. The price was based primarily on the value of the land. CAE used proceeds from the sale to reduce corporate debt including debt related to taxes due.

## **VERIFICATION SIGNATURES**

In accordance with Section 12 of the Securities and Exchange Act of 1934, the registrant caused this registration to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL AMERICAN EQUITIES CORP.

/s/ Michael N. Caggiano

MICHAEL N. CAGGIANO, President/CEO/Board Director  
Principal Financial and Accounting Officer

/s/ Richard Wm. Talley

RICHARD WM. TALLEY, Chairman, Board Director

/s/ P. James Voloshin

P. JAMES VOLOSHIN, Director, Secretary

## **SARBANES-OXLEY ACT SECTION 302 CERTIFICATIONS**

I, Michael Caggiano, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of Central American Equities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures; and

(d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.



/s/ Michael N. Caggiano

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Michael N. Caggiano  
President and Chief Executive Officer  
May 10, 2005

## **SARBANES-OXLEY ACT SECTION 906 CERTIFICATIONS**

I Michael N. Caggiano, President and Chief Executive Officer of Central American Equities Corporation, hereby certify that:

1. The annual report of the registrant on Form 10-K for the year ended December 31, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the registrant as of the dates and for the periods expressed in the annual report.

/s/ Michael N. Caggiano

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Name: Michael N. Caggiano  
Title: President and Chief Executive Officer  
Date: May 10, 2005